

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: May 31, 2007
Senate)

(As amended on May 30, 2007 by the

Bill Number: S.B. 310

Authors: Hayes, Setzler, and Gregory

Committee Requesting Impact: House

Bill Summary

To amend Section 12-36-2120, as amended, Code of Laws of South Carolina, 1976, relating to sales tax exemptions, so as to exempt the gross proceeds of sales or sales price of durable medical equipment and related medical supplies eligible for Medicare or Medicaid reimbursement and which are sold by written prescription or certificate of medical necessity.

REVENUE IMPACT ^{1/}

This bill as amended May 30, 2007 by the Senate is expected to reduce state sales and use tax revenue from the sale of durable medical equipment paid by Medicare and Medicaid by an estimated \$808,930 in FY2007-08. Because this exemption applies to revenues for the Homestead Exemption fund and there is a requirement to split the funds collected by eighty percent to the General Fund and twenty percent to the EIA fund, revenues for the Homestead Exemption fund will decrease \$1,617,861. Revenues for the General Fund will increase by \$647,144 and revenues for the EIA fund will increase by \$161,786.

This bill as amended May 24, 2007 by the House is expected to reduce state sales and use tax revenue by an estimated \$12,028,319 in FY2007-08. Of this total, \$6,321,168 will be a reduction in General Fund revenues, \$1,580,292 will be a reduction in EIA funds, and \$4,126,859 will be a reduction in Homestead Exemption funds for homeowner tax relief. This bill is expected to reduce local sales and use tax revenue by an estimated \$1,718,933 in FY2007-08.

Explanation of amendment (May 24, 2007) – by the House

This amendment would strike all language after that enacting words and insert the following sections:

Section 1: This amendment would amend Section 12-36-2120 to allow a sales tax exemption on hospital beds, walkers, and wheelchairs sold or rented to individuals with written prescription by an authorized health care professional. Using data from the Centers for Medicare and Medicaid Services, Medicare expenditures for hospital beds and wheelchairs in South Carolina are expected to reach \$27.4 million in 2007-08 (\$20 million for wheelchairs, \$4.4 million for hospital beds, \$3 million for walkers). According to estimates of the Centers for Medicare and Medicaid Services, Medicare durable medical equipment expenditures in South Carolina are approximately 40% of the total durable medical product expenditures in South Carolina. Based upon expenditures for Medicare, it is estimated that the total expenditures for the rentals and sales of wheelchairs, walkers, and hospital beds in South Carolina will reach \$68.5 million in 2007-08. Multiplying this figure by the six percent sales and use tax rate amounts to an estimated impact of \$4.1 million. This bill, therefore, is expected to reduce state sales and use tax revenue by an estimated \$4.1 million in FY2007-08. Of this total, \$2,733,334 will be reduction in General Fund revenues, \$683,333 will be a reduction in EIA fund revenues, and \$683,333 will be a reduction in Homestead Exemption fund revenues for homeowner tax relief.

Section 2: This amendment exempts one-third of the gross proceeds of the sale of legend or prescription

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drugs, medicines, biologicals, or bioabsorbable implant devices not already exempt under §12-36-2120(28). Under current law, medicines sold under prescription to patients and certain special-use prescription medications are already exempt from sales tax. This one-third exemption will cover all legend or prescription drugs, medicines, biologicals, or bioabsorbable implant devices sold to medical doctors or dentists. We estimate that the taxable sales of legend or prescription drugs, medicine, biological, or bioabsorbable implant devices to doctors or dentists in South Carolina will total \$318,320,869 in FY2007-08. Exempting one-third of these sales from the sales and use tax would reduce state sales tax collections by an estimated \$6,366,417 in FY2007-08. This amendment also provides that eighty percent of the sales taxes generated by the tax rate provided in this section must be credited to the general fund of the State and used as sales taxes are used and the remainder must be credited to the Education Improvement Act fund. Of the total \$6,366,417 reduction in state sales tax collections, \$2,546,567 will be a reduction in General Fund revenues, \$636,642 will be a reduction in EIA funds, and \$3,183,209 will be a reduction in Homestead Exemption funds for homeowner tax relief. This amendment also exempts all taxable sales of legend or prescription drugs, medicines, biologicals, or bioabsorbable implant devices to medical doctors and dentists from local sales and use taxes administered by the Department of Revenue. Based upon the latest available Department of Revenue sales tax collections data, local options sales taxes equals nine percent of state sales tax collections. Multiplying taxable sales of \$318,320,869 by the six percent sales tax rate totals an estimated \$19,099,252. Applying the nine percent local sales and use tax ratio totals an estimated \$1,718,933 reduction in local sales and use tax revenues in FY2007-08.

Section 3: This amendment exempts prescription drugs dispensed to Medicare Part A patients residing in a nursing home from the sales tax. According to Centers for Medicare & Medicaid Services (CMS) data provided by the South Carolina Health Care Association, Medicare Part A paid \$21,348,815 to South Carolina long-term facilities for prescription medications dispensed to residents in 2004. Applying a Nursing Home Inflation Index of 4.5%, this figure is estimated to total \$26,031,684 in FY2007-08. Multiplying this figure by a sales tax of six percent would reduce state sales and use tax collections by an estimated \$1,561,901 in FY2007-08. Of this total, \$1,041,267 will be a reduction in General Fund revenues, \$260,317 will be a reduction in EIA fund revenues, and \$260,317 will be a reduction in Homestead Exemption fund revenues for homeowner tax relief.

Explanation of amendment (May 16, 2007) – by the Senate Finance Committee - Impact revised May 31, 2007
This amendment would strike all language after the enacting words and insert new language that would reduce the sales and use tax on the sale of durable medical equipment (DME) and related supplies paid directly by funds under the Medicare or Medicaid programs from six percent to five and one-half percent from July 1, 2007 through June 30, 2008. We estimate that taxable Medicare/Medicaid DME sales in South Carolina will total \$161,786,092 in FY2007-08. Reducing the sales and use tax by one-half percentage point on the sales of taxable Medicare/Medicaid DME is expected to reduce state sales and use tax by an estimated \$808,930 in FY2007-08. Beginning with the February 15, 2008 forecast by the BEA, if the growth rate in General Fund revenue for the upcoming fiscal year is at least five percent compared to the current fiscal year's estimate, then the sales and use tax rate on taxable Medicare/Medicaid DME may be reduced by one percentage point beginning the following July 1. The BEA would notify the Department of Revenue in writing that this requirement has been met. That rate would remain in effect until another formal review of General Fund growth rates is undertaken by the following February 15th forecast. This process would continue in one percentage point increments until the sales and use tax on Medicare/Medicaid DME is wholly eliminated. This amendment is expected to reduce state sales and use tax by a total of \$14,000,830 in FY2012-13 when fully implemented. This amendment also provides that eighty percent of the sales taxes generated by the tax rate provided in this section must be credited to the general fund of the State and used as sales taxes are used and the

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remainder must be credited to the Education Improvement Act fund. Based upon this provision, the Homestead Exemption fund will not receive any sales tax revenue from DME and related supplies paid directly by funds under the Medicare or Medicaid programs and will be reduced by \$1,617,861. General Fund revenues, therefore, will increase by \$647,144 and EIA fund revenues will increase by \$161,786.

Explanation of bill filed January 23, 2007

This bill would exempt durable medical equipment (DME) and related supplies from sales and use tax when such equipment is purchased under a certificate of medical necessity and is reimbursable under the Medicare and/or Medicaid program. This exemption applies whether or not such purchases are made by Medicare and/or Medicaid beneficiaries. Based upon historic data provided by the Centers for Medicare and Medicaid Services (CMS) and the SC Department of Health and Human Services (DHHS), it is estimated that combined Medicare and Medicaid DME related expenditures will total an estimated \$252,930,270 in South Carolina in FY2007-08. Under current law, two major DME product categories, oxygen and related supplies and diabetic supplies, are already exempt from sales and use tax liability. According to data obtained from CMS and DHHS, oxygen and related supplies and diabetic supplies comprise roughly half of Medicare's and Medicaid's combined total DME expenditures annually. Removing an estimated 50 percent of Medicare and Medicaid DME expenditures already exempt under current law from estimated FY2007-08 Medicare and Medicaid total DME expenditures and applying a six percent sales and use tax rate to the remaining amount reduces total sales and use tax revenue by an estimated \$7,327,584. It is also estimated that non-Medicare and/or Medicaid beneficiaries will spend an estimated \$60,070,939 on eligible DME equipment and related supplies in FY2007-08, excluding purchases of oxygen and related supplies and diabetic supplies already exempt from sales and use tax liability. Applying a six percent sales and use tax rate to estimated eligible DME equipment and related supply purchases by non-Medicare and/or Medicaid beneficiaries in FY2007-08 reduces total sales and use tax revenue by an additional \$3,604,256 in FY2007-08. In total, exempting eligible purchases of DME equipment and related supplies by Medicare and/or Medicaid beneficiaries and non-beneficiaries is expected to reduce state sales and use tax revenue by an estimated \$10,931,840 in FY2007-08. Of that total, \$7,287,893 will be a reduction in General Fund sales tax revenue, \$1,821,973 will be a reduction in EIA funds, and \$1,821,973 will be a reduction in Homestead Exemption funds for homeowner tax relief.

/s/ William C. Gillespie
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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.